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Canada

DAIRY AND PRODUCTS ANNUAL

Canada - Dairy Products Annual

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Report Highlights:
Across the board production and sales of dairy products in Canada were down slightly in 2008. The largest decline was in the production of cheese which fell by 7 percent. Data for the first eight months of 2009 suggests a continued, slight, downward trend. A growth in dairy cows suggests limited growth in 2010. One area of significant growth is in organic milk where the number of producers has tripled since 2000 and production grew by 25 percent in 2007/08 compared to the year earlier. However, organic milk production still accounts for less than one percent of the total. Consumption remains flat on a per capita basis while the consumer price index for dairy products is up between 23-25 percent compared to 2002. All foods have shown an increase of 14 percent during the same period. While all trade in dairy products is tightly controlled the Import for Re-Export Program continues to show strong growth.

Commodities:
Dairy, Milk, Fluid

Production:
The Canadian dairy sector functions under a supply management system, based on planned domestic production, administered pricing and dairy product import controls.

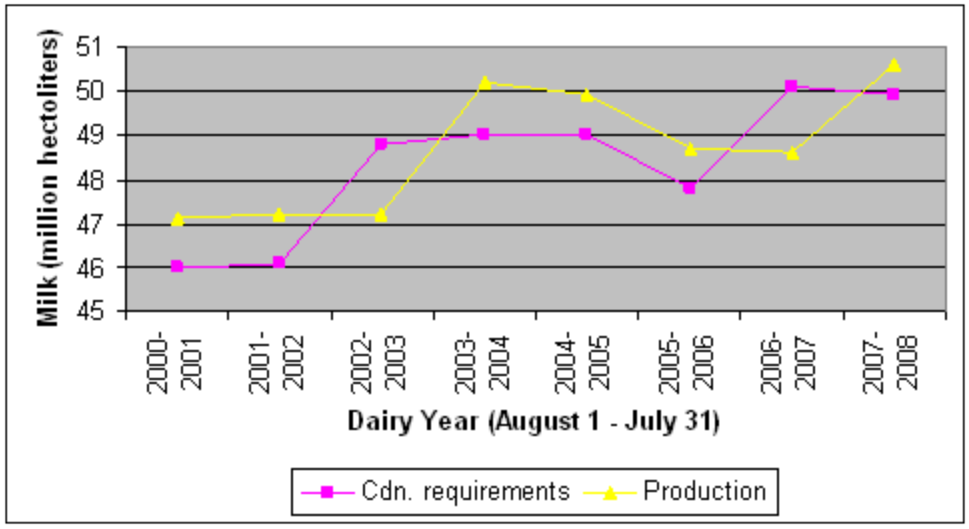
In 2008, dairy production in Canada generated total net farm receipts of $5.3 billion and generated sales of $13.1 billion, representing 15% of the Canadian food and beverage sector. The dairy industry ranks third in terms of value in the Canadian agricultural sector following grains and red meat.

Milk production in Canada supplies two markets. The fluid milk market includes creams and flavored milks. The industrial milk market is milk used to make products such as butter, cheese, yogurt, ice cream and milk powders. In the 2008-2009 Canadian dairy year (August 1 – July 31), the fluid market accounted for approximately 30 percent of total producer shipments of milk.

In Canada, provincial milk marketing boards maintain responsibility for setting production limits of its own fluid milk, pricing formulas, quota policies and other regulations. Industrial milk production levels are allocated using a national management tool called the Market Sharing Quota (MSQ). Quota is allocated on a butterfat basis. It is set by the Canadian Milk Supply Management Committee (CMSMC), which applies the terms of the National Milk Marketing Plan (a federal-provincial agreement) to establish each province's share of the MSQ. The provinces are then responsible for distributing shares of the quota to producers according to provincial policies and in accordance with pooling agreements.

The CMSMC sets the MSQ based on the recommendations of the Canadian Dairy Commission (CDC). The CDC monitors the trends in Canadian dairy requirements (demand) and makes recommendations on the necessary adjustments to reflect changes in demand for milk for industrial dairy products. Figure 1 illustrates the increase in Canadian dairy requirements and milk production for industrial purposes over time by dairy year. The Canadian dairy requirements for dairy year 2008-2009 stayed at relatively the same level as the previous year, increasing .47 percent. Likewise, milk production increased only slightly compared to the previous year.

Figure 1: Canadian Dairy Requirements & Production for Industrial Milk Market



Source: Canadian Dairy Commission; www.cdc.ca/cdc/index_en.asp?caId=812&pgId=2180

Based on 6 months of production data of milk produced for the fluid milk market and for the industrial milk market, total milk production for calendar year 2009 is forecast to decline slightly to 8.20 million metric tons (MMT) from 8.27 MMT in 2008. Due to flat consumer demand, production in 2010 is forecast at 8.25 MMT or about 0.6 percent above 2009. Since 1999, the national dairy herd has declined by 17 percent, while total milk production increased by 2.4 percent. These adjustments reflect ongoing restructuring at the farm level. There are fewer farms but more cows on each farm. Since 1999, the number of cows per farm has risen by over 30 percent and the average Canadian dairy farm now has 74 cows. Better feeding, disease control and genetic advancements have increased the amount of milk produced per cow. The overall number of cows has decreased over the past 10 years, however the production per cow has increased by over 10 percent. The number of cows appears to be increasing slightly in 2009.

The typical Canadian dairy farm is quite specialized, with most of its revenue coming from milk production and the sale of dairy cattle. It is a family-owned operation with a herd of about 74 cows. The farm owners are in their mid-forties and have built up considerable equity in their operation. The typical family farm is accustomed to using advanced technology in practices such as artificial insemination, breed selection and labor-saving milking systems. Computerization of feeding and herd management systems, and equipment innovations are also rapidly changing the way things are done on the farm. The industry has experienced a 36 percent decline in the number of dairy farms over the past decade. However, individual farming units have grown in size and have become more effective in operation.

The dairy processing sector is relatively concentrated. Today, 14% of Canadian plants are owned by the three largest processors in the country (Saputo, Agropur and Parmalat), processing approximately 75 percent of the milk produced in Canada. The fluid milk market represents almost 30 percent of milk utilization, while the market for manufactured dairy products such as butter, cheese, yogurt and ice cream accounts for over 70 percent of utilization.

Total cheese production for 2009 is expected to decrease to 280 thousand metric tons (TMT), from year 2008 levels of 285 TMT. Cheese production has been adjusted to exclude fresh cheeses such as ricotta, cream cheese, and cottage cheese. Production of specialty (variety) cheese (excluding ricotta, cream cheese, and cottage cheese) is forecast to remain at the same level as in 2008. Cheddar cheese production in 2009 is forecast to remain stable at the 2008 production level of 130,200 MT. Production of mozzarella cheese showed the biggest drop in 2008 to 117,819 MT, or 6 percent, and the decline continued for the first half of 2009. Future production levels of both cheddar and specialty cheeses are expected to rebound slightly, possibly as a reflection of higher prices changing the demand for these products both at the consumer level and at the manufacturing level. Higher dairy prices and a slowing Canadian economy resulting from the world financial crisis is expected to negatively impact consumer demand. Consumers tend to decrease their consumption of specialty cheeses during such times.

Butter production in 2008 increased slightly over 2007 production, to almost 85 TMT (84,876 MT). Butter production data from Statistics Canada shows a slight decrease in butter production in the first six months of the year compared to the same period of time in 2008, and total butter production in 2009 is forecast to decrease to 82 TMT and remain relatively flat in 2010 at 82 TMT. Again, this lack of strong growth is a reflection of reduced demand created by the slow down of the Canadian economy. Butter is considered by many consumers to be a luxury good. Butter production has declined from a high of 99,426 MT in 1990 to a low of 75,832 MT in 2002 to a new low of 75,406 MT in 2006. Between 2002 and 2008, butter production rebounded due to the increasing demand for butter for pastries and other baked products.

Non-fat dry milk production (skim milk powder (SMP)) production for 2008 increased even more than expected to 87 TMT from 77 TMT in 2007. However, because lower butter production is expected in 2009 a corresponding decline of skim milk powder production in 2009 is expected. Skim milk powder production for 2009 is expected to fall to 80 TMT and rebound slightly in 2010 to 82 TMT.

Faced with increased competition and rapid advances in technology, the dairy industry has had to adapt to remain competitive and find new opportunities. The Canadian dairy industry has responded with the development of a robust line of dairy products, including probiotic yogurts, ultra filtered milk, and dairy products containing Omega-3 fatty acids. While still less that 1 percent of total dairy production, organic milk production is steadily increasing in Canada, reaching over 72 million litres in 2008-2009up 25 percent from the previous year. The number of farms producing organic milk increased from 65 in 2000-2001 to 173 in 2008-09. Moreover, there are over 665 varieties of cheese.

Prices

In December, 2008, the Canadian Dairy Commission announced increases in support prices for butter and skim milk powder to be effective February 1, 2009. For dairy producers this increase in support prices should translate into a revenue increase of 1 percent or C$0.739 per hectoliter for milk used to make products such as yogurt, cheese, butter and skim milk powder.

Consumption:

Per Capita Consumption of Dairy Products

Per-capita milk consumption, calculated by dividing annual fluid milk sales of standard, 2%, 1%, skim and chocolate milk by the Canadian population, decreased slightly in 2008 to 82.07 from 82.8 liters per person in 2007. Consumption of higher-fat milk like 3.25% and 2%, continued to decline in 2008 as consumers continue to shift consumption away from higher-fat milk in favor of 1% and skim, and as chocolate milk continues to gain in popularity. In 2008, consumption of standard and 2% milk decreased by less than 1% each from 2007 levels. In 2008, skim and 1% milk consumption remained virtually flat compared to 2007 at 8.68 kilograms/person and 18.16 kilograms/person, respectively. Chocolate milk consumption increased again in 2008, increasing 5 percent from 2007 to top 6 kilograms/person.

In the move away from higher-fat milk, consumers are shifting primarily towards 1% milk and chocolate milk. Fluid milk sales reflect the changing trend in fluid milk consumption. Canada's changing demographics and the availability of other calcium-fortified beverages such as soy beverages, has reduced consumer demand for milk over the past ten years. Immigration is responsible for the population growth in Canada and milk drinking often is not part of new Canadians' cultural eating patterns. This has a negative impact on total milk consumption in Canada. Conflicting health messages regarding the consumption of milk has also led to the increased popularity of new beverage such as soy beverages that compete with milk. The dairy industry has tried to counter this with the promotion of milk as an alternative to sugary fruit and soft drinks and as a way of combating obesity-related issues. Increases in dairy prices and people reducing their consumption of specialty coffees and coffee products due to a slowing Canadian economy are expecting to be contributing factors to no growth.

According to the data compiled by Agriculture Canada's Dairy Section, per-capita total cheese consumption (including fresh cheese) in 2008 was 12.37 kilograms, a slight decrease from 2007 consumption of 12.49 kiograms per person Consumption of cheddar cheese declined from 4.22 kilograms to 3.95 kilograms, while specialty cheeses increased from 7.36 to 7.52 kilograms.

In 2008, data compiled by Agriculture Canada's Dairy Section reveals that per-capita butter consumption decreased slightly following a decline in 2007 for the first time in the last 10 years. Much of the decrease can be attributed to the decrease in the number of imports arriving under the Import for Re-Export Program (IREP) for use in further processing as these imports are a part of the per-capita consumption calculation. Per capita consumption of butter in 2008 fell to 2.63 kilograms per person from 2.65 in 2007 and 2.83 in 2006. The high cost of butter and greater competition from liquid oils as consumers continue to demand healthier and lower-fat alternatives to traditional products, may also be contributing to the consumer's demand for butter.

Domestic consumption of skim milk powder also increased in 2008 to 1.86 kilograms per capita, from 1.78 in 2007. The Canadian Dairy Commission has been working hard to develop new uses and markets for the surplus powder. The Dairy Marketing Program was expanded in 2004/2005 into the area of innovation; the program's main objectives are to promote awareness and increase utilization of dairy products and components by food product manufacturers. This includes finding new and innovative uses for skim milk powder in dairy and food products. The milk produced in Canada is sold to processors through a Harmonized Milk Classification System for the manufacture of products. The products are broken into 5 classes. The creation of a new milk class that encourages the use of skim milk powder reportedly priced at the international price level has also aided in the utilization and reduction of the surplus skim milk powder. The utilization of skim milk powder in animal feed is an additional outlet that is aggressively being pursued. The consumption of skim milk powder is expected to stay high, and will face reduced competition from imports once the impact of the new tariff rate quota (TRQ) on milk protein concentrates is implemented. Of note, this new TRQ will not be applicable to the United States.

Utilization of Milk

The Canadian Dairy Commission publishes the milk utilization by class (on a dairy year basis). The price paid for milk by processors varies according to the milk class 1- 5. For dairy year 2008-2009, on the standard basis of butterfat content (3.6 kg/hectolitre), 29.5% of all the milk produced in Canada was transformed into fluid milk, cream, and milk beverages, 34.2% into cheese, 6.8% into yogurt and ice cream, 19.8% into butter, and 7.7% into further processed products destined for the domestic and export markets. More information on the Harmonized Milk classification System is available at the following website: http://www.cdc-ccl.gc.ca/cdc/index_en.asp?caId=812&pgId=2182

Table 1: Milk Utilization by Class (Dairy Year)

Milk Class	Milk Utilization in Million HL		Percent of Total Milk		
	2007-2008	2008-2009	2007-2008	2008-2009	Percent Change
1	24.3	24.4	29.20%	29.53%	0.5%
2	5.3	5.6	6.34%	6.79%	+6.41%
3(a) and 3(b)	28.1	28.3	33.71%	34.17%	+0.73%
4(a) and 4(a)1	17.1	16.4	20.54%	19.82%	-4.10%
4(b), 4(c), 4(d), 4(m)	1.1	1.1	1.33%	1.35%	+0.58%
5(a), 5(b), and 5(c)	6.8	6.4	8.20%	7.68%	-6.90%
5(d)	0.6	0.5	0.67%	0.66%	-1.84%
Total	83.2	82.7	100.00%	100.00%	

Summary of Harmonized Milk Classification System:

1: Milk or milk beverages, cream and other fluid products
2: Ice cream, sour cream, other frozen diary products
3: Cheese
4: Butter, milk components, concentrated milks
5: Cheese and other dairy products used as ingredients.
Full descriptions available: Canadian Dairy Information Center

Trade:

Export and Import Controls for Dairy Products:

Quantitative restrictions in ten categories of dairy products were converted to TRQs to support supply management of industrial milk under the Canadian Dairy Commission Act and as a result of the agreement at the World Trade Organization (WTO) in 1994.
Regulations for Imports and Exports of Dairy Products
Tariff Rate Utilization Tables and Quota Holders for dairy products in Canada:

http://www.international.gc.ca/trade/eicb/agric/milk-en.asp

Export and Import Permits Act:

http://laws.justice.gc.ca/en/E-19/index.html

Table 2: Tariff-Rate Quotas for Dairy Imports into Canada

Dairy Product Description	Access in tons	Tariff Item Number (to 6-digit)
Milk Protein Substitutes	10,000	0350.40
Fluid Milk*	0	0401.10, 0401.20
Cream, not concentrated, no sugar, (heavy cream)	394	0401.30
Skim Milk Powder	0	0402.10.10
Whole Milk Powder, whether or not sweetened	0	0402.21, 0402.29
Concentrated and Evaporated milk	12	0402.91, 0402.99
Yogurt	332	0403.10
Powdered Buttermilk	908	0403.90
Liquid Buttermilk, Sour Cream	0	0403.90
Dry Whey	3,198	0404.10
Products consisting of natural milk	4,345	0404.90

constituents		
Butter, fats and oil from milk	3,274	0405.10, 0405.90
Dairy Spreads	0	0405.20
Cheese	20,412	0406
Ice cream mixes	0	1806.20, 1806.90
Food prep. With milk solids	70	1901.90
Food prep. with >= 25% ms; not for retail sale	0	1901.20
Ice Cream and other edible ice	484	2105.00
Milk cream and butter subs.	0	2106.90
Non-alcoholic beverages containing milk	0	2202.90
Complete feeds and feed supplements	0	2309.90

* There is no commercial TRQ for fluid milk. However access of 64,500 tons is allowed for cross-border consumer imports.

Import for Re-export Program (IREP)

Imports of dairy products/ingredients to be sold on the Canadian market are limited through import quotas and prohibitively high over-access tariffs. Canadian processors can, however, import certain dairy products/ingredients for use in the manufacturing of goods destined for export (for example pastries and confectionary items, cheeses, butter) through a program administered by International Trade Canada called the Import for Re-Export Program (IREP). Due to the fact that these goods are exported, they do not compete with domestic dairy ingredients. The advantage to Canadian exporters is that they do not suffer a competitive disadvantage as they have access to dairy products/ingredients at world price. Details of this program is available at the following website: http://www.dfait-maeci.gc.ca/eicb//notices/ser663-en.asp . The Import for Re-export Program has grown in popularity since its creation in 2003 and is expected to continue growing in popularity due the accessibility afforded to food processors under the program.

The popularity of this program highlights the growing importance of the dairy ingredient market in further processing. It is key to growing the dairy industry in developed markets where dairy consumption has reached maturity. The Canadian dairy industry has in place a number of programs that compete with the IREP program in an attempt to capture this dairy ingredients market. One such program is the Special Milk Class Permit Program (class 5 of the classified dairy pricing system). The Special Milk Class Permit Program (SMCPP) was created by the Canadian Milk Supply Management Committee (CMSMC) in 1995 and is run by the Canadian Dairy Commission (CDC). The program objective is to provide eligible further processors, distributors, and animal feed manufacturers with the

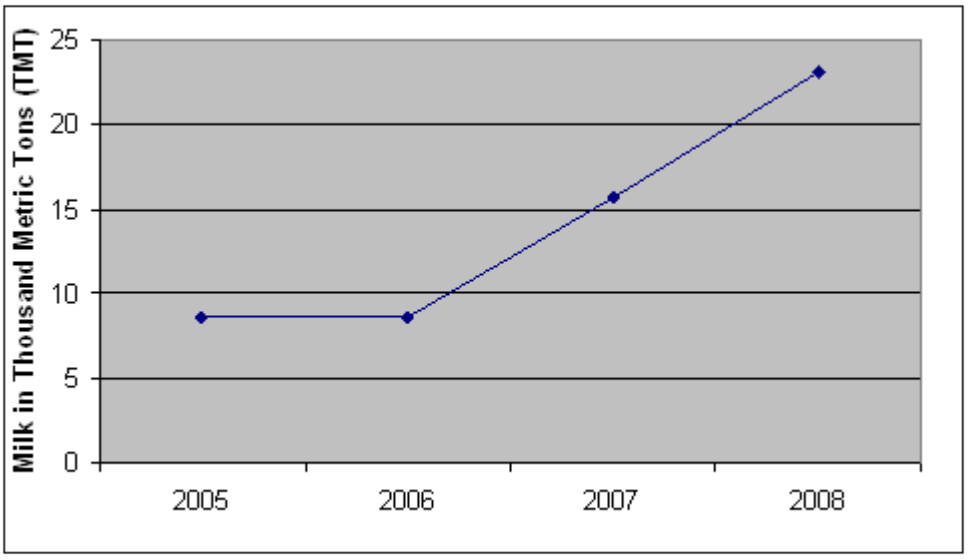
means to access Canadian manufactured dairy ingredients, at prices that will allow them to remain competitive in the marketplace. The prices in this class are based on U.S. prices. Therefore, when U.S. prices get closer to world prices, the incentive to use IREP should decrease. Despite these new efforts by dairy producers to supply these markets, IREP popularity continues to growth. This may be due to the availability of the product under the IREP program. More details on the special class program can be found on the following website: www.cdc-ccl.gc.ca/cdc/index_en.asp?caId=124&pgId=1530. Other programs used to foster the use of dairy ingredients by food processors include the CDC's Innovation Support Fund and the Domestic Dairy Product Innovation Fund.

Imports of Fluid Milk, Cheese, Butter, Skim Milk Powder

Fluid milk and Cream

The fluid milk access level for is 64,500 MT, a figure that represents estimated annual cross-border purchases by Canadian consumers. There is no commercial quota available for fluid milk. The goods are imported under General Import Permit No. 1 - Dairy Products for Personal Use. **Small amounts of fluid milk are also imported under supplemental permits issued by International Canada (IT), and through the IREP program which accounts for nearly 100% of milk imports.** Despite efforts to increase milk usage under special classes program, IREP trade has continued to grow. However, in 2009, fluid milk imports are expected to fall due to an anticipated economic slowdown that may slow the growth in demand experienced over the last few years.

Figure 2: Growth of Milk Imports under the Import for Re-export Program (IREP); Years 2005-2008



Source: EMP TRQ Import Summary (Foreign Affairs and International Trade Canada)

Cream, unlike fluid milk, has a small commercial quota, which is determined on a dairy year (August-July) basis rather than an annual calendar year (CY) basis. The cream access level is 394 MT. Cream imports continue to increase due to the increased usage of the Import for Re-Export Program.

Due to market proximity and the perishable nature of fluid milk and cream, the United States is the primary source for imports of milk and cream into Canada.

Cheese

The commercial quota on cheese is 20,411,866 kilograms, and 66% of that cheese quota is specifically allocated to the European Union. Cheese imports for 2008 were 25,640 MT. Since import levels tend to stay stable due to the TRQ in place, post predicts a similar level of cheese imports for 2009 and 2010 (24,500-25,000 MT).

Due to the country specific access, the EU-25 remains the largest cheese (excluding fresh cheeses) supplier to Canada. The United States' share of imports has increased over the last several years. This is likely due to a growth in IREP trade. United State's cheese exports may be negatively impacted due to new cheese standard regulations that Canada introduced a year ago and which came into effect December 14, 2008. It is difficult to estimate how proof of compliance requirements will affect trade. For this reason, and based on Jan-Aug imported data, post predicts U.S. share of cheese imports into Canada to be close to 25 percent of total cheese imports into Canada in 2009.

Butter

Total butter imports are comprised of three HS codes: 0405.10.00 for butter, 0405.90.00 for fats and oils from milk, and HS 0405.20.00 (zero TRQ access) for dairy spreads, which contain butter. Similar to cream imports, the butter import access level is determined based on the dairy year, rather than the calendar year. The access quota is set at 3,274 MT and applies only to the butter and fats and oils from milk. Over the last few years there has been a decreased usage of the IREP program for butter although the pace of imports has increase in Jan-June 2009.

While total imports under tariff lines HS 0405 decreased to 7,354 MT in 2008 from a high of 13,248 MT in 2007, imports are expected to recover slightly in 2009 to approximately 10,000 MT in 2009. Over the last 18 months the United States has supplied an increasing share of Canadian butter imports. This increase could largely be accredited to increase costs of transportation giving the U.S. an advantage due to proximity to the Canadian market, as well as high U.S. supplies.

Non-fat Dry Milk (Skim Milk Powder)

In 2008, import permits for re-exports and supplementary imports were issued for 4,241 MT of skim milk powder (SMP), and almost 8 MT of SMP entered under the over access line. The pace of SMP imports has slowed in 2009 and SMP imports for year 2009 are expected to total 3,200 MT. The United States accounts for nearly 100% of Canadian skim milk powder import. Almost all trade on skim milk powder takes place under the IREP. Imports in 2010 are expected to remain at around the 3,000 MT level due to continued weak demand.

Exports

The 2002 ruling by the World Trade Organization (WTO) capped subsidized exports of dairy products from Canada. As a result, Canadian dairy producers are limited in the quantity of dairy products that can be exported from Canada and this has resulted in a negative trade balance in dairy products. As the difference between Canada's domestic support prices and world prices increases, the amount that Canada can export within the WTO limits decreases.

In 2008, Canadian dairy exports were valued at C$255 million, while imports amounted to C$679 million of dairy products. The main products exported by Canada in 2008 were cheese (mainly cheddar) and skim milk powder. These represent 27% and 16%, respectively, share of total exports. Top dairy imports included various kinds of cheeses (39%) followed by casein products (13%) (value basis).

In 2009, based on year-to-date trade data through August, fluid milk and cream exports are expected decline another 15 percent to 2,600 MT. Milk exports (excluding cream) in 2009 are expected to remain below 1,000 MT for the second consecutive year. While historically the U.S. has received a large percentage of Canadian mil exports, due to high U.S. milk supplies in 2008, exports to the U.S. continue to decline.

Total cheese exports (excluding cream and fresh cheeses) are forecast at 8,200 MT for 2009 and 8,400 MT in 2010. This compares to 8,583 MT in 2008. The United States and the United Kingdom remain the two primary markets for Canadian cheese, accounting for 32% and 42% of cheese (excluding cream and fresh cheeses) exports, respectively. Canada has specific market access for 4,000 MT in the U.K.

markets and has three specific quotas for U.S. cheese markets: cheddar, Swiss- and Emmenthal-type cheeses, and non-specific cheeses.

Total butter exports are comprised of three HS codes: 0405.10.00 for butter, 0405.90.00 for fats and oils from milk, and 0405.20.00 for dairy spreads, which contain butter. Total butter exports (all three lines) for 2008 plummeted to 235 MT from totaled 12,977 MT in 2007. Dairy spreads accounted for 91% of those exports virtually all of which go to the United States. Based on eight months of data, 2009 exports are forecast to rebound slightly to 2,000 MT. Post forecasts butter exports to increase to 3,000 MT in 2010.

The 2002 WTO ruling capped Canada's exports of SMP at 44,953 MT limiting the ability of the industry to reduce the structural surplus of SMP that is inherent in an industry where the quota system is based on butterfat. Total non-fat dry milk (skim milk powder (SMP)) exports in 2008 reached 10,668 MT. In 2008 Cuba and Egypt were the main destinations for Canadian exports of skim milk powder receiving 29 percent and 22 percent, respectively. In 2009, exports, based on eight months of export data are forecast to increase to 9,500 MT. Increased domestic demand for skim milk powder in 2010 is expected to keep export levels of skim milk powder at similar levels to those in 2009.

Stocks:

In order to ensure that supply management operates as it is designed and the Canadian market has a constant supply of product, the Canadian Dairy Commission (CDC) holds stocks of butter in storage throughout the year. This is referred to as the normal butter inventories of 12,000 MT.

Policy:

Cheese Compositional Standards

In late December 2007, Canada published amendments to two existing federal regulations, the Dairy Products Regulations and the Food and Drug Regulations, in order to introduce revisions to the allowable ingredients used to make cheese. The new restrictions will likely result in an increased usage of domestic raw milk. The regulations result in this by setting a minimum level of raw milk to be used to produce various cheeses and introduce specific compositional standards by type of cheese. Imported cheese will have to meet the same regulatory standards. In recent years, there has been a notable increase by Canadian dairy product manufacturers in the use of other milk products (i.e., milk solids) to make cheese, such as skim milk powder, whey and milk protein concentrates. There was a corresponding increase in the level of Canadian imports of milk proteins destined for cheese making. Critics of the government action claim that the regulatory revisions are a trade barrier designed to increase the level of Canadian milk in domestic cheese manufacturing.

The United States and U.S. dairy organizations filed comments during the regulatory proposal stage. Among other issues, the United States objected to the introduction of a new Canadian import license scheme which threatens to add an additional layer of licensing on importers already dealing with import allocations under Canada's tariff rate quota for cheese. The new cheese regulations may also result in a displacement of dairy ingredients trade. The new restrictions risk resulting in surplus of domestic whey being produced which could displace whey that was previously imported.

In the official publication of the regulatory revisions, Canada claims that the amendments take into account the comments received and are consistent with international food standards. Canada also claims that the action harmonizes the existing federal regulations governing cheese production, enhances consumer interests and allows for technological advances in cheese making. The revised Regulations come into force on December 14, 2008. A copy of the official publication of the amendments on the new Canadian compositional standards for cheese is available on the Canada Gazette (Part II, December 26, 2007, Vol. 141, No. 26) website at: http://canadagazette.gc.ca/index-e.html

In response to the new regulations on cheese compositional standards, three Canadian dairy processors petitioned the federal court for a judicial review of the new cheese regulations. The judicial review looked at the question of whether or not proper procedure was followed in developing the regulations (the lawfulness of a decision or action made by a public body), and not on the regulations themselves. Saputo Inc., Kraft Canada Inc., and Parmalat Canada Inc. the three dairy processors involved in the suit, sought a judicial review of the amendments made to Division 8 of the Food and Drugs Regulations and to the Dairy Products Regulations which set a minimum amount of milk required to be used in cheese production. They asked the court to find the regulations invalid and without legal effect. The dairy processors are arguing that the regulations (i) are meaningless (not enforceable), (ii) lack the requisite level of uniformity and objectivity, (iii) are an impermissible sub-delegation of the discretionary regulation-making authority vested solely in the Governor-in-Council to the Canadian Food Inspection Agency (CFIA), and (v) were promulgated for the purpose of providing an economic benefit to dairy producers at the expense of dairy processors and others. In addition, the dairy processors challenged the authority of the government to make a federal regulation regarding the cheese standards due to the fact that the regulation of the milk in the controlled by the provinces.

On October 7, 2009 The Federal Court judge issued a decision on this case brought by Saputo, Kraft Canada and Parmalat Canada which challenged the government's authority in these regulations. The judge found that the government did indeed have the authority to issue the Cheese Compositional Standards Regulations made to the Food and Drug Regulations and the Dairy Products Regulations. In other words, the new Cheese Compositional Standards Regulations proposed by the federal government, including new casein and whey ratios for all cheese, have been found by the Court, in all respects, to be constitutionally and legally valid as they apply to cheese in international and inter-provincial trade, including cheese imported into Canada. The appeal was submitted November 6, 2009, and a decision will likely take another year. In the meantime it is not clear if the new Cheese Compositional Standards Regulations will be enforced or not. The government had been holding off on launching any additional standards, e.g. on yogurt, until this case was concluded. With this decision additional standards may now proceed on additional products. The appeal may affect the timing of additional standards.

Health Claims

A rising interest in the health impacts of foods among both industry and consumers has prompted Health Canada to review its management of health claims on foods in Canada. Health claims may be stated explicitly with words, or implied through symbols, graphics, logos or other means such as a name, trade mark or seal of approval. Health Canada initiated a review of the current framework for the management of health claims on food to ensure efficiency and flexibility in the approval of health claims. Specifically, the goal is to ascertain that health claims used to market foods is based on sound science and nutrition policy so that ultimately consumers receive accurate information regarding the foods they consume. The Smart Regulation initiative and the Blueprint for Renewal set the stage for the health claim modernization project initiated in May 2006 and was followed by a discussion paper released in November 2007 followed by a public consultation processes. Dairy Farmers of Canada submitted written comments. No date has been set yet for the release of a policy on the general management of health claims labeling.

Ice Cream Promotion Program

In March, 2009 Canada instituted a new program for ice cream manufacturers that provides a discount on the price of milk/cream purchased to make ice cream. This discounted milk/cream is only available for ice cream that is to be manufactured using 100% Canadian dairy ingredients. This is part of a broader promotional program that grants diary product manufacturers who use only Canadian dairy ingredients to enter into a licensing agreement for use of the "little blue cow" logo. The discounted milk/cream for use in qualifying ice cream program is designed to render imports of butter/oil/sugar blends and domestically produced vegetable oils less competitive for use in ice cream and ice cream products.

Production, Supply and Demand Data Statistics:

Canada	2008		2009		2010	
Dairy, Milk, Fluid	Market Year Begin: Jan 2008		Market Year Begin: Jan 2009		Market Year Begin: Jan 2010	
	USDA Official Data	New Post Data	USDA Official Data	New Post Data	USDA Official Data	New Post Data
	(all data in 1,000 metric tons unless otherwise noted)					
Cows In Milk (1,000 head)	985	989	980	978		983
Cows Milk Production	8,270	8,270	8,250	8,200		8,250
Other Milk Production	0	0	0	0		0
Total Production	8,270	8,270	8,250	8,200		8,250
Other Imports	23	23	15	15		15
Total Imports	23	23	15	15		15
Total Supply	8,293	8,293	8,265	8,215		8,265
Other Exports	1	3	3	3		3
Total Exports	1	3	3	3		3

Fluid Use Dom. Consumption	3,145	3,145	3,135	3,080		3,110
Factory Use Consumption	4,735	4,735	4,715	4,725		4,740
Feed Use Dom.Consumption	412	410	412	407		412
Total Dom. Consumption	8,292	8,290	8,262	8,212		8,262
Total Distribution	8,293	8,293	8,265	8,215		8,265
CY Imp. from U.S.	22	16	14	15		15
CY. Exp. to U.S.	2	1	2	1		1

Canada	2008		2009		2010	
Dairy, Butter	Market Year Begin: Jan 2008		Market Year Begin: Jan 2009		Market Year Begin: Jan 2010	
	USDA Official Data	New Post Data	USDA Official Data	New Post Data	USDA Official Data	New Post Data
	(all data in 1,000 metric tons)					
Beginning Stocks	11	11	15	14		15
Production	84	85	80	82		82
Other Imports	8	7	10	10		10
Total Imports	8	7	10	10		10
Total Supply	103	103	105	106		107
Other Exports	3	1	11	2		3
Total Exports	3	1	11	2		3
Domestic Consumption	85	88	82	89		90
Total Use	88	89	93	91		93
Ending Stocks	15	14	12	15		14
Total Distribution	103	103	105	106		107
CY Imp. from U.S.	1	3	0	3		3
CY. Exp. to U.S.	2	0	0	0		0

Canada	2008		2009		2010	
Dairy, Milk, Nonfat Dry	Market Year Begin: Jan 2008		Market Year Begin: Jan 2009		Market Year Begin: Jan 2010	
	USDA Official Data	New Post Data	USDA Official Data	New Post Data	USDA Official Data	New Post Data
	(all data in 1,000 metric tons)					
Beginning Stocks	20	20	41	29		33
Production	83	87	80	80		82
Other Imports	4	4	2	3		3
Total Imports	4	4	2	3		3
Total Supply	107	111	123	112		118
Other Exports	15	11	13	10		10
Total Exports	15	11	13	10		10
Human Dom. Consumption	50	70	50	70		75
Other Use, Losses	1	1	1	1		1

Total Dom. Consumption	51	71	51	71		76
Total Use	66	82	64	81		86
Ending Stocks	41	29	59	33		31
Total Distribution	107	111	123	114		117
CY Imp. from U.S.	4	4	2	4		4
CY. Exp. to U.S.	0	0	0	0		0

Canada	2008		2009		2010	
Dairy, Cheese	Market Year Begin: Jan 2008		Market Year Begin: Jan 2009		Market Year Begin: Jan 2010	
(all data in 1,000 metric tons)	USDA Official Data	New Post Data	USDA Official Data	New Post Data	USDA Official Data	New Post Data
Beginning Stocks	68	68	70	59		46
Production	306	285	305	280		295
Other Imports	25	26	25	25		25
Total Imports	25	26	25	25		25
Total Supply	399	379	400	364		366
Other Exports	10	10	8	8		8
Total Exports	10	10	8	8		8
Human Dom. Consumption	319	310	315	310		315
Other Use, Losses	0	0	0	0		0
Total Dom. Consumption	319	310	315	310		315
Total Use	329	320	323	318		323
Ending Stocks	70	59	77	46		43
Total Distribution	399	379	400	364		366
CY Imp. from U.S.	0	0	0	0		0
CY. Exp. to U.S.	0	0	0	0		0